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Brazil

Cotton and Products

Update

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Approved by:

William Westman, Agricultural Counselor
U.S. Embassy

Prepared by:

Oliver Flake, Agricultural Attaché

Report Highlights:

Post lowered the production forecast for 2004/05 by 50,000 tons to 1.35 million tons. Production and area in 2003/04 were slightly revised to reflect final government estimates. Forecast consumption in 2004/05 is increased to 890,000 tons and exports are lowered 50,000 tons to 450,000 tons. Increased detection of transgenic cotton seed along with transportation difficulties will likely impact the marketing of this year's crop.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

Cotton PS&D

Brazil							
Cotton							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2002		08/2003		08/2004	MM/YYYY
Area Planted	0	743700	0	1070000	0	1130000	(HECTARES)
Area Harvested	735000	743700	1070000	106800	1070000	1130000	(HECTARES)
Beginning Stocks	526027	500000	627052	563612	1003937	888360	(MT)
Production	846956	847500	1273700	1272000	1273700	1350000	(MT)
Imports	122580	122580	118661	112648	87091	100000	(MT)
MY Imp. from U.S.	0	0	0	68007	0	60000	(MT)
TOTAL SUPPLY	1495563	1470080	2019413	1948260	2364728	2338360	(MT)
Exports	106468	106468	209888	209900	435453	450000	(MT)
USE Dom. Consumption	783816	800000	827361	850000	870906	890000	(MT)
Loss Dom. Consumption	-21773	0	-21773	0	-21773	0	(MT)
TOTAL Dom. Consumption	762043	800000	805588	850000	849133	890000	(MT)
Ending Stocks	627052	563612	1003937	888360	1080141	998360	(MT)
TOTAL DISTRIBUTION	1495563	1470080	2019413	1948260	2364727	2338360	(MT)

Production

Post forecast production for 2004/05 is lowered 50,000 tons to 1.35 million tons. Area is also lowered to 1,130,000 hectares with the forecast yield at 1.19 tons per hectare. Production and area for 2003/04 were revised slightly to reflect final government estimates.

Falling cotton prices combined with soaring input costs have lead some cotton market analysts to believe that production this year will be the same or slightly less than last year. This analysis is partially based on the current cost of production in some areas, such as Sao Paulo state, where the market price is below the government set minimum price and even with the cost of production. However, it should be noted that the cost of production in Sao Paulo is greater than in the main producing areas of Mato Grosso, Goias, and Bahia. Production is also thought by many to be restrained this year due to lower yields as a result of fewer fertilizer and agrochemical applications. There are reports from chemical and fertilizer companies of lower sales as compared to last year. However, this year the rising cost of these products has lead some producers to purchase less-expensive contraband product from Paraguay. The exact amount of illegal purchases is not known but it is believed to be much greater than last year.

The chart below shows that the cost of fertilizers, combined with low cotton prices, is more profound in cotton than in soybeans, the main substitute crop. However, a large portion of the inputs for this year's crop were purchased before the fall in cotton prices. While Post lowered the production and area forecast from the previous forecast, production and area are still expected to be greater than last year due primarily to new lands coming into cotton production and significant investment in machinery for cotton production the past few years.

Furthermore, Post believes that producers in Mato Grosso, Goias, and Bahia will plant cotton in hopes of a recovery in prices, though current prices would still result in a profit for most producers even given the high cost of inputs. Expansion is expected to be the greatest in western Bahia where area is forecast by Post to increase 15 percent over last year.

Exchange Ratio of Fertilizers to Selected Crops Amount of Commodity needed to purchase 1 ton of fertilizer			
	Cotton 15 kg Bale	Rice 50 Kg Sack	Soybeans 60 Kg Sack
Sep. 03	41.6	19.7	20.2
Oct. 03	41.1	19.6	17.8
Nov. 03	38.8	21.5	17.1
Dec. 03	39.6	21.1	17.9
Jan. 04	37.3	21.1	17.9
Feb. 04	36.7	23.8	18.4
Mar. 04	36.9	23.4	16.2
Apr. 04	38.4	24.4	17.2
May 04	45.9	24.6	18.1
June 04	51.8	28.1	21.3
July 04	55.4	28.1	24.5
Aug. 04	57.5	28.0	26.3
Sep. 04	56.0	28.5	25.2
Increase Sep. 03 – Sep. 04	34.6%	44.6%	24.7%

Source: DERAL & CONAB

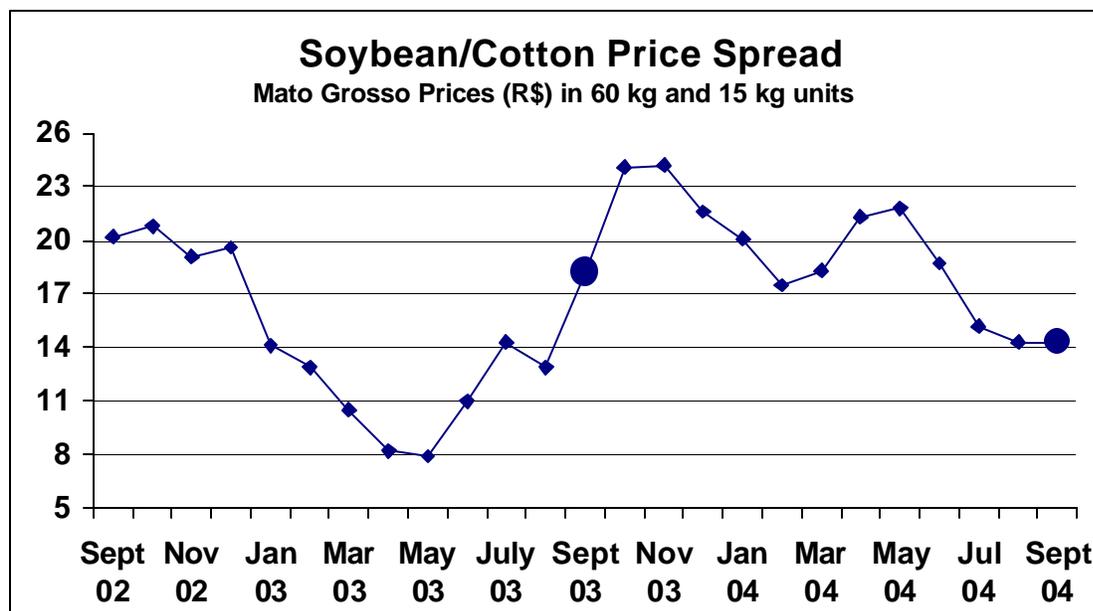
Cotton production forecasts by CONAB are held in high regard by most of Post's cotton and textile contacts. CONAB forecasts production at 1.33 to 1.39 million tons, which is above many private forecasts, which see rising inputs costs as a major deterrent to area and yield. However, surprisingly, there is also evidence to suggest that producers are using more inputs for cotton and less for competing crops. The National Association of Fertilizers and Correctives (ANDA, in Portuguese) recently reported that, compared to last year, the distribution of fertilizers for cotton is up 11.8 percent but corn is down at -5.9 percent as is soybeans at -1.9 percent.

A key factor in cotton production this year is current prices. As global cotton prices have fallen over the past several months Brazilian prices have also fallen. However, as the price chart below demonstrates, prices in August and September (key months for planting decisions) were down only 5 percent compared to August and September of 2003. Furthermore, the soybean/cotton price spread has fallen over the past four months and is about 20 percent less than September of 2003. This would suggest that, while soybean and cotton prices have fallen, cotton prices have done better than soybean prices, thus discouraging a switch to soybean area from cotton hectares.

Producer Seed Cotton Prices in Mato Grosso													
R\$/15 kg													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Avg.
2001	9.6	9.6	9.5	9.4	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.40
2002	9.4	9.5	9.5	9.5	9.5	9.5	11.0	11.3	12.5	14.9	16.0	16.6	11.58
2003	17.4	18.1	18.5	18.5	18.2	17.7	17.5	17.7	17.5	18.2	20.0	20.0	18.27
2004	20.7	21.0	21.2	22.0	21.7	18.8	18.1	17.0	16.5	16.5			19.71

Source: CONAB

*Post estimate



Trade

Final 2003/04 imports totaled 112,648 tons with 68,001 tons lint cotton imported from the United States, which is nearly 60,000 tons more than the previous year. While U.S. Pima imports were very low, demand was high this past year for long-stemmed cotton used in the production of denim. During August 2003 to July 2004 cotton was the leading U.S. agricultural export to Brazil valued at U.S.\$ 69 million.

Total 2003/04 exports are raised 10,000 tons from the previous Post forecast to a total 209,900 tons in order to reflect final government figures. Exports for the year were nearly double that of 2002/03, due mostly to an increase in shipments of more than 75,000 tons to Asian markets.

Brazilian Cotton Exports by Destination		
(1,000 tons)		
Destination	August 2002/July 2003	August 2003/July 2004
Argentina	43	42
Japan	8	28
Indonesia	7	22
China	4	18
South Korea	0	12
Pakistan	1	11
Thailand	5	9
Italy	6	7
Columbia	3	6
Germany	1	5
Taiwan	1	5
Portugal	9	5
Belgium	3	4
Chile	3	3
Bolivia	1	3
India	4	3
Others	7	27
Total	106	210

Forecast exports for 2004/05 are down 50,000 tons to 450,000 tons. Forward export commitments are said to be lagging the pace of last year and actual early-season shipments have also been behind pace. A new law adding requirements to the bureaucratic process needed for producers to directly export cotton is also slowing shipments. However, approximately 300,000 tons of the crop now being planted has been sold for export. These export sales along with 200,000 tons sold to the domestic market were executed at prices previous to the recent downturn and are a further stimulus to production.

Consumption

Internal consumption has been strong lately, but still not enough to support prices and thus cooperatives are forced to look to exports. Consumption is estimated by an industry contact at 890,000 tons, while the National Association of Cotton Exporters (ANEA) forecasts consumption in 2004/05 at 910,000 tons and the Brazilian Association of Cotton Producers (ABRAPA) forecasts consumption at 900,000 tons. Demand is rising slowly as a result of high oil prices, which has led to an increase in the price of synthetic fibers. The average price of polyester in 2003 was US\$1.03 per Kg compared to the current price of US\$2.09 per Kg. Demand is rising for "natural" instead of synthetic fibers by environmentally conscious consumers. Demand is also being supported by low farm gate prices as producers over the past few months have pushed harvested supplies on the market in order to obtain the cash needed to buy inputs. Cotton consumption is also aided by a recovery in the economy and greater disposable income. Textile contacts also report that textile exports are driving demand with shipments in the year thus far 26 percent greater than last year. Post forecasts a year-to-year increase in consumption of 400,000 tons (5 percent) with 2004/05 forecast at 890,000 tons, which is below the ANEA forecast but above that of other sources.

Biotechnology

In early August the Ministry of Agriculture discovered the presence of illegally planted biotech cotton. The discovery was made on three farms, which have since been fined, during routine inspections in the southeast part of the state of Mato Grosso, the largest cotton production state in Brazil. It is reported that previous to the discoveries, the Minister of Agriculture ordered increased testing for biotech cotton. Since these initial findings, 591 samples in seven states have been collected. In addition to fines given to producers, two seed companies will face heavy fines and 70,000 sacks of seed banned for sale. Following the initial discoveries, Minister Rodrigues emphasized that biotech cotton is more problematic than transgenic soybeans, because there is a possibility of cross-pollination by insects between conventional cotton and wild native species. The discovery of biotech cotton and the Minister's comments are very significant because it is the first time the government has officially recognized that biotech cotton is grown in Brazil.

The Ministry of Agriculture demands GMO-presence testing of all cotton seeds for planting with only seeds produced inside the National Seed Production System certified for use. The Brazilian Association of the Seed Industry (ABRASEM, in Portuguese) reports that the use of certified cotton seed in Brazil has fallen from 92 percent of all seed in 1997 to just 61 percent in 2003. This suggests that the use of contraband biotech cotton seed is on the rise, which is confirmed by sources in the cotton industry. Producers were greatly concerned that there will be a lack of certified seed this year due to biotech contamination of conventional varieties. As a result, the Brazilian Association of Seed Producers (AbraseM) recently requested that the government allow for a one percent tolerance for the presence of transgenic seed. As a result, on November 18th the National Biosafety Commission (CTNbio), the government body responsible for such a decision, decided to allow for the one percent tolerance in certified seed. The news comes as a great relief to producers who are now more assured of an adequate seed supply and relieved that they will not be criminally prosecuted for trace amounts of biotech seed. However, CTNbio made it clear that this action does not in any way signal the authorization to plant biotech seeds.

Embrapa, the National Research Institute for Agriculture, has spent the last 15 years studying resistance to a weevil that has caused huge damage to cotton crops. The result of their research is a GMO hybrid that will include both the RR resistant and the Bt gene, which they are ready to market. The stacked hybrid is expected to be competitive because there is no product currently containing both biotech qualities. Producers are anxious to try biotech seed and have lobbied hard for the liberalization of biotech cotton. The Brazilian Association of Cotton Producers (ABRAPA) has requested GMO liberalization to allow Brazilian producers to stay competitive with those in other countries that benefit from lower input costs. It is estimated that use of biotech cotton seed could save Brazilian cotton producers US\$150 per hectare.

Transportation

Lack of storage space at ports is forcing many producers to keep supplies on farm until just before loading onto ships. Shortage of shipping containers is also a major constraint facing the Brazilian cotton industry because this raises transportation costs and could impact exports. According to the cotton magazine Algodao Brasil, the cost for a 40 ft container to Asia has increased from \$1,200 to \$1,500 last crop year to \$1,800 to \$2,300 this year.

It is estimated that of the 450,000 tons of cotton expected to be exported from the crop recently harvested, 50,000 tons will be shipped by road to neighboring countries, and the rest exported by sea. Last year (see chart below), approximately 75 percent of cotton

exports passed through the ports of Santos and Paranagua. Getting cotton from production states, such as Mato Grosso, to these ports is very expensive. Adding to the cost of transport are high insurance rates due to highway robbery and "disappearances" at the ports. These high costs for storage and transport are expected to impact the price-competitiveness of exports this year, but the impact will not likely be as significant as for lower value per ton crops such as soybeans and corn.

Brazilian Cotton Exports by Port (August 2003 to July 2004)		
Port	Mode	Tons
Paranagua	Sea	99,000
Santos	Sea	58,500
Foz do Iguacu	Land	45,000
Corumba	Land	3,000
Rio	Sea	1,000
Other	Land & Sea	3,500
Total	-	209,807